

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Sherman	County Gladwin
Audit Date June 30, 2006	Opinion Date October 6, 2006	Date Accountant Report Submitted to State: December 18, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

October 6, 2006

To the Township Board
Township of Sherman
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sherman, Gladwin County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sherman's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sherman, Gladwin County, Michigan as of June 30, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

The Management's Discussion and Analysis report of the Township of Sherman covers the Township's financial performance during the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

Primary revenue for the Township in the fiscal year 2005-2006 includes \$22,903.45 in property taxes, \$6,488.55 in Swamp Tax and \$73,801.55 in State Revenue Sharing. Gladwin Rural Fire District, Garbage, Grass Lake Road Improvements, and Lake Lochbrae Weed Control are special assessments. As has been the practice in years past, the Township has continued to set money aside to fund future projects. Expenditures were down about \$35,000.00 from 2004-2005.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Garbage Fund.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2006

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Garbage Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Garbage Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Over the course of the year, the Township Board amended the budget twelve times as events required during the fiscal year. Special assessment expenditures for GRUFD, Grass Lake Roads and Lake Lochbrae Weed Control are determined during the fiscal year. New Michigan election laws allow up to four elections per year and election expenses shifted to the Township have increased elections costs. Legal expense for the Township has increased mainly because of enforcement of Blight Ordinance. Road improvement (blacktopping of Chappel Dam Road north of Sugar River Road) and maintenance expenses were \$23,670.98. The Township's net assets for governmental activities to increase by \$30,370.54 for the fiscal year ended June 30, 2006.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$33,626.14 and fire protection, which incurred expenses of \$28,348.18 in 2006. The fire protection service is totally supported by a Fire special assessment.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township of Sherman invested \$14,190.52 in capital assets during the fiscal year ended June 30, 2006.

The Township of Sherman had no long-term debt activity during the fiscal year ended June 30, 2006.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township's budget for 2006-2007 reflects an increase of approximately 11% due to increases in legal fees, assessor wage, insurance, and special assessments.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk or treasurer.

Sherman Township
Gladwin County, Michigan
Management's Discussion and Analysis

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>223 172 15</u>
Total Current Assets	<u>223 172 15</u>
NONCURRENT ASSETS:	
Capital Assets	91 934 46
Less: Accumulated Depreciation	<u>(45 382 64)</u>
Total Noncurrent Assets	<u>46 551 82</u>
TOTAL ASSETS	<u>269 723 97</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
Current liabilities	<u>-</u>
Total Current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	46 551 82
Unrestricted	<u>223 172 15</u>
Total Net Assets	<u>269 723 97</u>
TOTAL LIABILITIES AND NET ASSETS	<u>269 723 97</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and changes in net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	4 000 00	-	(4 000 00)
General government	70 498 24	-	(70 498 24)
Public safety	28 348 18	28 348 18	-
Public works	108 748 15	88 748 15	(20 000 00)
Other	4 571 40	-	(4 571 40)
Total Governmental Activities	<u>216 165 97</u>	<u>117 096 33</u>	<u>(99 069 64)</u>
General Revenues:			
Property taxes			22 903 45
Swamp tax			488 55
State revenue sharing			73 801 55
Interest			3 491 92
Miscellaneous			<u>22 704 71</u>
Total General Revenues			<u>129 390 18</u>
Change in net assets			30 320 54
Net assets, beginning of year			<u>239 403 43</u>
Net Assets, End of Year			<u>269 723 97</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Garbage</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	169 432 59	53 459 13	222 891 72
Due from other funds	<u>280 43</u>	<u>-</u>	<u>280 43</u>
Total Assets	<u><u>169 713 02</u></u>	<u><u>53 459 13</u></u>	<u><u>223 172 15</u></u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>169 713 02</u>	<u>53 459 13</u>	<u>223 172 15</u>
Total fund equity	<u>169 713 02</u>	<u>53 459 13</u>	<u>223 172 15</u>
Total Liabilities and Fund Equity	<u><u>169 713 02</u></u>	<u><u>53 459 13</u></u>	<u><u>223 172 15</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	223 172 15
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	91 934 46
Accumulated depreciation	<u>(45 382 64)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>269 723 97</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	<u>General</u>	<u>Garbage</u>	<u>Total</u>
Revenues:			
Property taxes	22 903 45	-	22 903 45
Swamp tax	6 488 55	-	6 488 55
State revenue sharing	73 801 55	-	73 801 55
Interest	3 266 86	225 06	3 491 92
Special assessments	45 846 33	71 250 00	117 096 33
Miscellaneous	<u>22 704 71</u>	<u>-</u>	<u>22 704 71</u>
Total revenues	<u>175 011 45</u>	<u>71 475 06</u>	<u>246 486 51</u>
Expenditures:			
Legislative:			
Township Board	4 000 00	-	4 000 00
General government:			
Supervisor	5 889 88	-	5 889 88
Elections	3 806 96	-	3 806 96
Clerk	9 337 10	-	9 337 10
Assessor	16 069 53	-	16 069 53
Board of Review	906 50	-	906 50
Treasurer	12 897 94	-	12 897 94
Building and grounds	3 993 84	-	3 993 84
Dues	564 09	-	564 09
Publishing and supplies	2 088 05	-	2 088 05
Equalization	1 966 66	-	1 966 66
Cemetery	2 389 50	-	2 389 50
Unallocated	5 550 69	-	5 550 69
Public safety:			
Fire protection	28 348 18	-	28 348 18
Public works:			
Highways and streets	33 626 14	-	33 626 14
Sanitation	-	71 767 85	71 767 85
Weeds	3 354 16	-	3 354 16
Other:			
Insurance	2 792 00	-	2 792 00
Pension	1 779 40	-	1 779 40
Capital outlay	<u>14 190 52</u>	<u>-</u>	<u>14 190 52</u>
Total expenditures	<u>153 551 14</u>	<u>71 767 85</u>	<u>225 318 99</u>
Excess of revenues over expenditures	21 460 31	(292 79)	21 167 52
Fund balance, July 1	<u>148 252 71</u>	<u>53 751 92</u>	<u>202 004 63</u>
Fund Balance, June 30	<u><u>169 713 02</u></u>	<u><u>53 459 13</u></u>	<u><u>223 172 15</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 21 167 52

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(5 037 50)
Capital Outlay	<u>14 190 52</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 30 320 54

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sherman, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sherman. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2005 tax roll millage rate was .7748 mills, and the taxable value was \$29,574,637.00.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	10-30 years
Furniture and equipment	3-20 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>223 172 15</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	174 380 08
Uninsured and Uncollateralized	<u>51 563 29</u>
Total Deposits	<u>225 943 37</u>

The Township of Sherman did not have any investments as of June 30, 2006.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
Land	15 000 00	-	-	15 000 00
Buildings	60 000 00	-	-	60 000 00
Equipment	<u>4 233 94</u>	<u>14 190 52</u>	<u>(1 490 00)</u>	<u>16 934 46</u>
Total	79 233 94	14 190 52	(1 490 00)	91 934 46
Accumulated Depreciation	<u>(41 835 14)</u>	<u>(5 037 50)</u>	<u>1 490 00</u>	<u>(45 382 64)</u>
Net Capital Assets	<u><u>37 398 80</u></u>	<u><u>9 153 02</u></u>	<u><u>-</u></u>	<u><u>46 551 82</u></u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2006, was \$1,779.40.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Sherman does not issue building permits. Building permits are issued by the County of Gladwin.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	26 000 00	26 000 00	22 903 45	(2 096 55)
Swamp tax	6 000 00	6 000 00	6 488 55	488 55
State revenue sharing	67 000 00	67 000 00	73 801 55	6 801 55
Interest	200 00	200 00	3 266 86	3 066 86
Special assessments	47 500 00	47 500 00	45 846 33	(1 653 67)
Miscellaneous	11 250 00	11 250 00	22 704 71	11 454 71
Total revenues	157 950 00	157 950 00	175 011 45	17 061 45
Expenditures:				
Legislative:				
Township Board	4 000 00	4 000 00	4 000 00	-
General government:				
Supervisor	7 070 28	7 070 28	5 889 88	(1 180 40)
Elections	5 000 00	5 000 00	3 806 96	(1 193 04)
Clerk	10 627 76	10 627 76	9 337 10	(1 290 66)
Assessor	21 200 00	21 200 00	16 069 53	(5 130 47)
Board of Review	1 250 00	1 250 00	906 50	(343 50)
Treasurer	13 141 00	13 141 00	12 897 94	(243 06)
Building and grounds	5 700 00	5 700 00	3 993 84	(1 706 16)
Dues	1 120 00	1 120 00	564 04	(555 91)
Publishing and supplies	2 900 00	2 900 00	2 088 05	(811 95)
Equalization	3 000 00	3 000 00	1 966 66	(1 033 34)
Cemetery	3 950 00	3 950 00	2 389 50	(1 560 50)
Unallocated	14 700 00	14 700 00	5 550 69	(9 149 31)
Public safety:				
Fire protection	29 000 00	29 000 00	28 348 18	(651 82)
Public works:				
Highways and streets	130 690 46	130 690 46	33 626 14	(97 064 32)
Weeds	8 500 00	8 500 00	3 354 16	(5 145 84)
Other:				
Insurance	3 700 00	3 700 00	2 792 00	(908 00)
Pension	4 500 00	4 500 00	1 779 40	(2 720 60)
Contingency	10 000 00	10 000 00	-	(10 000 00)
Capital outlay	15 000 00	15 000 00	14 190 52	(809 48)
Total expenditures	295 049 50	295 049 50	153 551 14	(141 498 36)
Excess (deficiency) of revenues over expenditures	(137 099 50)	(137 099 50)	21 460 31	158 559 80
Fund balance, July 1	137 099 50	137 099 50	148 252 71	11 153 21
Fund Balance, June 30	-	-	169 713 02	169 713 02

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	150 00	150 00	225 06	75 06
Special assessments	<u>70 000 00</u>	<u>70 000 00</u>	<u>71 250 00</u>	<u>1 250 00</u>
Total revenues	<u>70 150 00</u>	<u>70 150 00</u>	<u>71 475 06</u>	<u>1 325 06</u>
Expenditures:				
Public works:				
Sanitation	<u>86 500 00</u>	<u>86 500 00</u>	<u>71 767 85</u>	<u>(14 732 15)</u>
Total expenditures	<u>86 500 00</u>	<u>86 500 00</u>	<u>71 767 85</u>	<u>(14 732 15)</u>
Excess (deficiency) of revenues over expenditures	(16 350 00)	(16 350 00)	(292 79)	16 057 21
Fund balance, July 1	<u>39 300 00</u>	<u>39 300 00</u>	<u>53 751 92</u>	<u>14 451 92</u>
Fund Balance, June 30	<u><u>22 950 00</u></u>	<u><u>22 950 00</u></u>	<u><u>53 459 13</u></u>	<u><u>30 509 13</u></u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2006

	Balance 7/1/05	Additions	Deductions	Balance 6/30/06
<u>Asset</u>				
Cash in bank	48 97	919 708 19	919 476 73	280 43
Total Assets	<u>48 97</u>	<u>919 708 19</u>	<u>919 476 73</u>	<u>280 43</u>
<u>Liabilities</u>				
Due to other funds	48 97	144 255 72	144 024 26	280 43
Due to other units	-	775 452 47	775 452 47	-
Total Liabilities	<u>48 97</u>	<u>919 708 19</u>	<u>919 476 73</u>	<u>280 43</u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 2006

Cash on hand and in bank – beginning of year	<u>48 97</u>
Cash receipts:	
Property taxes	919 481 15
Interest earned	<u>227 04</u>
Total cash receipts	<u>919 708 19</u>
Total beginning balance and cash receipts	<u>919 757 16</u>
Cash disbursements:	
Township General Fund	72 774 26
Township Garbage Fund	71 250 00
Gladwin County	414 178 75
Mid-Michigan Community College	32 287 01
Clare-Gladwin Intermediate School District	53 287 01
Gladwin Community Schools	122 877 58
Harrison Community Schools	148 307 23
Refunds	<u>3 999 14</u>
Total cash disbursements	<u>919 476 73</u>
Cash on Hand and in Bank – End of Year	<u><u>280 43</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 6, 2006

To the Township Board
Township of Sherman
Gladwin County, Michigan

We have audited the financial statements of the Township of Sherman for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sherman in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Sherman
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants